

STATE OF INDIANA

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2001**

Frank O'Bannon, Governor



Prepared by:

The Office of the Auditor of State

Connie K. Nass

Auditor of State

Room 240

State House

Indianapolis, Indiana 46204

Acknowledgments

This Comprehensive Annual Financial Report was prepared by:

The Office of Indiana Auditor of State, **Connie K. Nass**
Room 240, State House
200 West Washington Street
Indianapolis, Indiana 46204
(317) 232-3300

Auditor of State Staff:

Wendy Armstrong, Accounts Payable Director
Tom Dearing, Management Information Systems Director
Pam Fritz, Human Resources Director
Ande Gregg, Internal Auditor
Jeff Heinzmann, Legal Counsel
William Lantz, CPA, MBA, Deputy Auditor
Paul Lottes, Deputy Auditor and Legal Counsel
Sally Mayrose-Jones, Budgeting/Purchasing Director
Brent Plunkett, Payroll Director
Doris Anne Sadler, Deputy Auditor and Legal Counsel

Auditor of State Financial Reporting Team:

Brenda Alyea, Assistant Settlement Director
Dan Bastin, CPA, Settlement Director
Cindy Bowling, Account Analyst
Jackie Carr, Account Analyst
Darlene Lingle, Settlement Assistant
Donna Richie, Accounting Supervisor
Jackie Roberts, Account Analyst
Elizabeth Spencer, CPA, Accounting Director
Carl Zapfe, CPA, MBA, Financial Analyst

We extend special thanks to all employees of State agencies throughout Indiana. Your cooperation and assistance in the preparation of this Comprehensive Annual Financial Report has been invaluable.

The pictures in this report are of post office murals found in the State of Indiana and contained in the book titled "The Story of the Indiana Post Office Murals," published in conjunction with the Indiana Historical Society. The pictures were taken by **Darryl Jones**. Reproduced with the permission of the photographer.

Visit our web site at www.state.in.us/auditor/

**AUDITORS OF STATE
of
THE STATE OF INDIANA**

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1999-	Connie K. Nass	Republican

STATE OF INDIANA
Comprehensive Annual Financial Report
For the Year Ended June 30, 2001

TABLE OF CONTENTS

INTRODUCTORY SECTION

Title Page	i
Acknowledgments	ii
Former Auditors of State	iii
Table of Contents	iv
Letter of Transmittal	xi
Certificate of Achievement	xviii
State Organization Chart and Selected State Officials	xix

FINANCIAL SECTION

Independent Auditors' Report	3
General Purpose Financial Statements:	
<i>Combined Balance Sheet - All Fund Types, Account Groups and Component Units</i>	6
<i>Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely Presented Component Units</i>	8
<i>Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, (Budgetary Basis) General Fund</i>	9
<i>Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, (Budgetary Basis) Special Revenue Fund Types</i>	10
<i>Combined Statement of Revenues, Expenses and Changes in Retained Earnings (or Equity) - All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units</i>	11

<i>Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds, and Similar Discretely Presented Component Units</i>	12
<i>Combined Statement of Changes in Plan Net Assets - Pension Trust Funds</i>	13
<i>Combined Statement of Changes in Fund Balances - Discretely Presented Component Units - Colleges and Universities</i>	14
<i>Combined Statement of Current Fund Revenues, Expenditures and Other Changes – Discretely Presented Component Units – Colleges and Universities</i>	16
<i>Notes to the Financial Statements and Required Supplementary Information</i>	17
Combining and Individual Fund Financial Statements, Account Groups and Schedules	57
General Fund	58
<i>General Fund Description</i>	58
<i>Balance Sheet</i>	59
<i>Statement of Revenues, Expenditures and Changes in Fund Balance</i>	60
Special Revenue Funds	61
<i>Special Revenue Fund Descriptions</i>	61
<i>Combining Balance Sheet - Special Revenue Funds</i>	62
<i>Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Special Revenue Funds</i>	66
<i>Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis)</i>	70
Debt Service Funds	83
<i>Debt Service Fund Descriptions</i>	83
<i>Combining Balance Sheet - Debt Service Funds</i>	84
<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Debt Service Funds</i>	85
Capital Projects Funds	87
<i>Capital Projects Fund Descriptions</i>	87
<i>Combining Balance Sheet - Capital Projects Funds</i>	88

<i>Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Capital Projects Funds</i>	89
Enterprise Funds	91
<i>Enterprise Fund Descriptions</i>	91
<i>Combining Balance Sheet - Enterprise Funds</i>	92
<i>Combining Statement of Revenues, Expenses, and Changes in Retained Earnings - Enterprise Funds</i>	93
<i>Combining Statement of Cash Flows - Enterprise Funds</i>	94
Internal Service Funds	97
<i>Internal Service Fund Descriptions</i>	97
<i>Combining Balance Sheet - Internal Service Funds</i>	98
<i>Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Internal Service Funds</i>	100
<i>Combining Statement of Cash Flows - Internal Service Funds</i>	102
Trust and Agency Funds	104
<i>Trust and Agency Fund Descriptions</i>	104
<i>Combining Balance Sheet - Trust and Agency Funds</i>	105
<i>Expendable Trust Fund Descriptions</i>	107
<i>Combining Balance Sheet - Expendable Trust Funds</i>	108
<i>Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Expendable Trust Funds</i>	110
<i>Nonexpendable Trust Fund and Pension Trust Fund Descriptions</i>	113
<i>Combining Balance Sheet - Nonexpendable Trust Funds</i>	114
<i>Combining Statement of Revenues, Expenses and Changes in Fund Balances - Nonexpendable Trust Funds</i>	114
<i>Combining Statement of Cash Flows - Nonexpendable Trust Funds</i>	115
<i>Combining Statement of Plan Net Assets - Pension Trust Funds</i>	116
<i>Combining Statement of Changes in Plan Net Assets - Pension Trust Funds</i>	117
<i>Agency Fund Descriptions</i>	119
<i>Combining Statement of Changes in Assets and Liabilities - Agency Funds</i>	120

General Fixed Asset Account Group	123
<i>General Fixed Asset Account Group Description</i>	123
<i>Schedule of General Fixed Assets by Source</i>	125
<i>Schedule of General Fixed Assets by Function and Activity</i>	125
<i>Schedule of Changes in General Fixed Assets by Function and Activity</i>	125
Discretely Presented Component Units	127
<i>Discretely Presented Component Units Descriptions</i>	127
<i>Balance Sheet - Discretely Presented Component Unit - Governmental Fund</i>	128
<i>Statement of Revenues, Expenditures and Changes in Fund Balance - Discretely Presented Component Unit - Governmental Fund</i>	128
<i>Combining Balance Sheet - Discretely Presented Component Units - Proprietary Funds</i>	129
<i>Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Discretely Presented Component Units - Proprietary Funds</i>	130
<i>Combining Statement of Cash Flows - Discretely Presented Component Units - Proprietary Funds</i>	131
<i>Combining Statement of Plan Net Assets – Discretely Presented Component Units – Pension Trust Funds</i>	132
<i>Combining Statement of Changes in Plan Net Assets – Discretely Presented Component Units - Pension Trust Funds</i>	133
<i>Combining Balance Sheet – Discretely Presented Component Units – Colleges and Universities</i>	134
<i>Combining Statement of Changes in Fund Balances – Discretely Presented Component Units – Colleges and Universities</i>	136
<i>Combining Statement of Current Fund Revenues, Expenditures and Other Changes – Discretely Presented Component Units - Colleges and Universities</i>	138

STATISTICAL SECTION

Statistical and Economic Data	143
<i>State Facts</i>	144
<i>General Governmental Revenues by Source and Expenditures by Function - Last Ten Fiscal Years</i>	145
<i>General Governmental Revenues by Source and Expenditures by Function - Fiscal Year 2000-2001</i>	146

<i>General Governmental Tax Revenues by Source - Fiscal Year 2000-2001</i>	147
<i>Reconciliation of General Fund Unappropriated Surplus to General Fund Unreserved, Undesignated Fund Balance</i>	148
<i>Distribution of Motor Vehicle Highway Fund</i>	149
<i>Revenue Bond Coverage</i>	150
<i>Indiana and United States Population - Ten Year Schedule</i>	151
<i>Population by Age - Ten Year Schedule</i>	152
<i>Per Capita Income - Ten Year Schedule</i>	153
<i>Total Taxable Income - Ten Year Schedule</i>	154
<i>Indiana and United States Employment Statistics - Ten Year Schedule</i>	155
<i>Twenty Largest Indiana Public Companies</i>	156
<i>Twenty Largest Indiana Private Companies</i>	157
<i>Twenty Largest Indiana Employers</i>	158
<i>Twenty Largest Indiana Colleges and Universities</i>	159
<i>Insured Commercial Bank Deposits - Ten Year Schedule</i>	160
<i>County Facts</i>	161
<i>Property Tax Schedules</i>	162
<i>Property Tax Levies and Collections - Last Ten Years</i>	163
<i>Assessed Value of Property - Last Ten Years</i>	163
<i>Assessed Value and Current Property Tax Levied by County</i>	164
<i>Property Valuations and Deductions for Property Taxes Payable 2001 by County</i>	165
<i>Property Taxes Charged Payable 2001 by Fund and County</i>	168
<i>Property and Excise Taxes Collected in 2000 by County</i>	174
<i>Distribution of Property and Excise Taxes Collected in 2000 by Fund and County</i>	175

INTRODUCTORY SECTION



“Filling the Water Jugs Haymaking Time”
Danville, Indiana, Post Office

From the book “The Story of the Indiana Post Office Murals”
Published by the Indiana Historical Society. Reprinted with
permission from the photographer, Darryl Jones.



**CONNIE KAY NASS
AUDITOR OF STATE**



Auditor of State

Connie Kay Nass

TELEPHONE (317) 232-3300
FACSIMILE (317) 232-6097
<http://www.ai.org/auditor>

December 21, 2001

Governor,
Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2001.

This Comprehensive Annual Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. Responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the state agencies that provide the data and are obligated to verify postings. We believe the information set forth in this report is accurate in all aspects and is presented in a manner designed to set forth the financial position and results of operations of the State as measured by the financial activity of its various funds.

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, the acknowledgments, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, the State Organizational Chart, and a listing of Selected State Officials.

The Financial Section includes the auditors' report, the general purpose financial statements, the combining and individual fund statements, and the account group statements and schedules.

The financial statements include all funds and account groups for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority and, ability to significantly influence operations. Based on these criteria, the various funds, account groups and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

ECONOMIC CONDITION AND OUTLOOK

The economic forecast upon which the State budget for fiscal years 2002-2003 was based was updated in April 2001. At that time, real GDP was projected to increase by 0.5% in the first quarter of 2001 with growth increasing to 2.1% by the third quarter of 2001. Real GDP growth was projected to increase through the first half of 2002 before stabilizing at 3.5%. On an annual basis, real GDP was projected to increase by 1.6% in 2001 and by 2.8% in 2002.

Growth was stronger than expected in the first quarter of 2001 and slower than expected in the second and third quarters. Through the first three quarters of 2001, real GDP increased by 1.5% compared to the April forecast of 1.6%.

The April 2001 forecast projected the Indiana non-farm personal income growth to slow in the first quarter of 2001 before rebounding quickly through the fourth quarter. Growth in Indiana non-farm personal income was projected to reach 5.3% by the last half of 2001. On an annual basis, Indiana non-farm personal income growth was projected to increase by 4.4% in 2001 and by 5.1% in 2002.

Growth in Indiana non-farm personal income was stronger than expected in the first quarter of 2001 and weaker than expected in the second quarter of 2001. Through the first half of 2001 Indiana non-farm personal income increased by 4.4% matching the April forecast.

The April forecast led to projected growth in General Fund and Property Tax Replacement Fund revenues of 4.2% in FY 2002 and 4.6% in FY 2003.

MAJOR INITIATIVES

Higher Education - Indiana continues the roll out of the new Community College of Indiana (CCI), bringing the new sites to several new locations across the State. Scheduled to be fully implemented by 2004, CCI will promote economic development and provide workers and students with low cost access to training and education. Indiana is also funding two important initiatives at the State's research universities. Indiana University is opening the new School of Informatics and Purdue University is constructing a Nanotechnology research facility. Both initiatives are intended to help bring students and the State of Indiana into the information and high technology economy.

K12 Education - Indiana continues its efforts to become a national leader in the area of developing rigorous academic standards and utilizing them in a system of shared accountability. The bipartisan Education Roundtable has created some of the nation's highest standards in math and reading. This year the Roundtable will be promulgating the science standards. All standards will be implemented in a coordinated fashion, along with instructional curricula, materials, and evaluation.

Public Safety - The budget appropriates \$1.2 billion for the operation of the State correctional system. These funds will be used to support the opening of new correctional facilities in New Castle and the second phase in Miami County. Over 4,400 beds will become available with the opening of these facilities and enhanced usage of the Community Correction Program. The State Police will spend \$4.75 million to upgrade the National Crime and Information Center system.

Transportation - An additional 4.5% over the last biennium will be used for the State Highway Construction Program. The budget includes \$3.6 billion in general, dedicated, and federal funds for the Department of Transportation for the biennium.

Department of Natural Resources - A new State Museum will open May 2002. There is budgeted \$9.2 million for the operation of the Museum each year of the biennium.

Public Health - Tobacco funds from the Indiana Health Care Advisory Board included funding distributions for The Children's Health Insurance Program (CHIP), \$29.0 million in FY 02 and \$33.6 million in FY 03, and \$500,000 in FY 02 and FY 03 for the Indiana Newborn Screening Program. The \$500,000 appropriation to Newborn Screening will provide for program expansion per HEA 1487 and for additional Medicaid coverage.

Public Health - The Department of Health received transferred funds from the Indiana Master Settlement Agreement Fund to provide \$15,000,000 in additional funding for the total operating expenses for Community Health Centers (CHC) and \$10,000,000 for CHC capital costs. In addition, \$1.5 million in tobacco funds was given to the Local Health Maintenance Fund.

Public Health - Due to an investment of \$39.3 million during the 99-01 biennium (\$14.3 million-FY00/\$25 million-FY01) the 317 (Senate Bill 317-1997) waiver waiting list has been reduced resulting in an additional 2,372 Hoosiers with developmental disabilities being served. Half of the increase provides for continuity of services for individuals already supported by the system. The other half addresses urgent needs of people currently waiting on services.

Public Health - The Children's Health Insurance Program (CHIP) is celebrating its 4th year of operation. As of June 2001, 392,154 children were receiving Healthcare through Hoosier Healthwise (the State's health insurance program). Of the 392,154 children receiving care, 47,520 were enrolled due to the CHIP initiatives. State healthcare has been made more accessible through the aggressive outreach program and simplified enrollment process. The eligibility threshold has been increased covering children with income at or above 200% of poverty.

Public Health - Hoosier RX, Indiana's Pharmacy Assistance program for seniors, became operational October 2000. The program assists qualifying senior citizens with a refund for a portion of their prescription drug expenses. As of June 2001, the program had served 8,105 Hoosier seniors and paid out more than \$1.2 million in reimbursements for pharmacy expenses. The program seeks to have enrolled a total of 20,000 seniors by December 31, 2001.

FINANCIAL INFORMATION

The State's system of internal accounting control is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

Single audit - As a recipient of federal financial assistance, the State is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to federal programs. This internal control structure is subject to periodic evaluation by management and internal audit staff of the various State agencies.

As part of the single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

Budgetary Controls - The annual budget for the State of Indiana is comprised of separate appropriations

to individual cost centers within the General and Special Revenue funds. A cost center is a mechanism for recording financial activity. Budgetary control is exercised at the cost center level by appropriations and allotments of accounts. Purchase orders and warrants, which result in a deficit account balance, are not released until additional appropriations are made available or the deficit balance is properly authorized. Unencumbered appropriations lapse at the end of each fiscal year.

Revenues - The following schedule presents a summary of General and Special Revenue fund revenues for the fiscal year ended June 30, 2001 and the amount and percentage of increases and decreases in relation to prior year revenues (amounts expressed in thousands).

<u>Revenues:</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (decrease) from 2000</u>	<u>Percent of Increase (decrease)</u>
Taxes	\$ 11,147,649	60.97%	\$ 60,646	0.55%
Licenses and permits	424,607	2.32%	17,467	4.29%
Current service charges	612,787	3.35%	(36,782)	-5.66%
Investment income	442,002	2.42%	(62,726)	-12.43%
Sales / rentals	69,760	0.38%	3,105	4.66%
Grants	5,306,137	29.02%	564,666	11.91%
Other/donations/escheats	<u>281,127</u>	1.54%	<u>50,287</u>	21.78%
Totals	\$ 18,284,069		\$ 596,663	3.37%

Expenditures - The following schedule presents a summary of General and Special Revenue fund expenditures, for the fiscal year ended June 30, 2001 and the amount and percentage of increases and decreases in relation to prior year expenditures (amounts expressed in thousands).

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (decrease) from 2000</u>	<u>Percent of Increase (decrease)</u>
General government	\$ 4,052,323	21.27%	\$ 376,230	10.23%
Public safety	1,097,476	5.76%	107,482	10.86%
Health	308,531	1.62%	10,489	3.52%
Welfare	5,615,461	29.48%	467,466	9.08%
Conservation, culture, and development and other	486,374	2.55%	5,485	1.37%
Education	6,076,896	31.90%	343,034	5.98%
Transportation	<u>1,411,707</u>	7.41%	<u>157,855</u>	12.59%
Totals	\$19,048,768		\$ 1,468,041	8.35%

General Fund Balance - The fund balance of the General Fund decreased by \$1.42 billion during the fiscal year ended June 30, 2001, including reclassifications.

Proprietary Operations - The State of Indiana's Enterprise funds consist of: Inns and Concessions, Toll Bridges, Toll Roads, the State Lottery Commission and the Malpractice Insurance Authority. The Inns and Concessions provide lodging and dining for park tourists, and the golf course operation at the Fort Benjamin Harrison Park. The Toll Bridges fund collects fees for the construction and improvements of toll bridges. The Toll Roads fund collects fees for the construction and improvements of toll roads. The State Lottery Commission manages and controls all activity that deals with the State's lottery, including the game show, the random number generating machines and the various instant winner games. The Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage. The outlook is good for continued self-sufficiency of these operations with little or no support from the General Fund.

The combined operating revenue for the State's Enterprise funds was \$656.8 million for the fiscal year ended June 30, 2001. This is an 5.42% decrease from fiscal year 2000. The combined cost of sales and operating expenses was \$467.4 million for fiscal year 2001. This is a 5.01% decrease from fiscal year 2000.

The State of Indiana's Internal Service funds consist of: Institutional Industries, Administration Services Revolving Funds, the State Office Building Commission (a blended component unit), the Recreational Development Commission (a blended component unit), and self-insurance funds. The Institutional Industries fund is used to account for revenues and expenses incurred in maintaining inmate employment programs. The Department of Administration uses the Administration Services Revolving funds to account for various services provided to other State agencies. The State Office Building Commission was created as a public body, both corporate and politic, for the issuance of debt for the Indiana Government Center and various correctional facilities. The Recreational Development Commission was created as a public body, both corporate and politic, for the issuance of debt for construction and renovation at various State parks. The self-insurance funds consist of funds used to administer health insurance, disability and death benefit plans for State employees and State police personnel.

Combined operating revenue for the State's Internal Service funds was \$271.0 million for the fiscal year ended 2001. This is a 9.67% increase over fiscal year 2000. The combined cost of sales and operating expenses for fiscal year 2001 was \$206.9 million. This is a .13% decrease over fiscal year 2000.

Fiduciary Operations - The State of Indiana sponsors eight public employee retirement systems (PERS). One of these, the State Police Pension Fund, is part of the primary government. The Public Employees' Retirement Fund and the State Teachers' Retirement Fund are discretely presented component units. In addition to its own fund, the board of the Public Employees' Retirement Fund administers the following funds: the 1977 Police Officer and Firefighters' Pension and Disability Fund, the Excise Police and Conservation Enforcement Officers' Retirement Fund, the Prosecuting Attorneys' Retirement Fund, the Legislators' Retirement System, and the Judges' Retirement Fund.

Debt Administration - The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. Total of revenue bonds and notes outstanding, net of amortized discounts, is \$5.72 billion at June 30, 2001.

Cash Management - Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(C)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 6.44%.

The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Risk Management - All of the risks associated with the items listed below are entirely assumed by the State of Indiana.

- 1) Unemployment Compensation Benefit Claims for State employees.
- 2) Workers' Compensation Benefit Claims for State employees.
- 3) Tort claims filed against the State.
- 4) Medical Malpractice claims filed against State hospitals.
- 5) Accidents caused by State motor vehicles.
- 6) State owned real property, including public buildings.
- 7) Certain employee health and death benefits.

The State, through the Department of Personnel and other agencies, conducts various types of risk programs for State employees designed to encourage State employees to live healthy and productive lifestyles. Some of the programs offered are:

- 1) Cardiopulmonary Resuscitation Training.
- 2) Better Nutrition.
- 3) Safety Training.
- 4) Disaster Preparedness Training.
- 5) Defensive Driving.
- 6) Mammogram Availability.
- 7) Employee Assistance Program.

Independent Audit - State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by federal and State government to be independent auditors. The Auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of the statewide Single Audit Report of the State of Indiana.

Certificate of Achievement Award - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2000. This was the eighth consecutive year that the State of Indiana has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

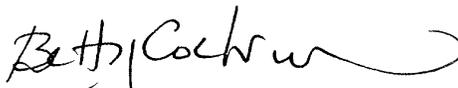
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments - We acknowledge the cooperation and assistance of all state agencies in the preparation of this report.

Sincerely,



Connie K. Nass
Auditor of State
State of Indiana



Betty Cockrum
Director
State Budget Agency

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Indiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy D. Crave
President

Jeffrey L. Essler
Executive Director

